

Message Text

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TAGS: EAID, IBRD, BG

SUBJECT: PREPARATION FOR BDG CONSORTIUM MEETINGS

REF: STATE 173448

BEGIN SUMMARY: DONORS AND ASSISTANCE AGENCY REPS HERE BELIEVE TIME HAS COME FOR BDG TO BEGIN PROCESS OF MOVING FROM EMERGENCY RELIEF TO QARD COMPREHENSIVE APPROACH TO ECONOMIC DEVELOPMENT. AT UPCOMING FIRST AID-BANGLADESH CONSORTIUM MEETINGS, USG, IN CONCERT WITH OTHER DONORS, SHOULD EXPRESS THIS VIEW AND PRESS FOR NECESSARY BDG POLICY INITIATIVES. POLICY SUGGESTIONS FOR DISCUSSION AT CONSORTIUM MEETING ARE LISTED AND DISCUSSED BELOW. MISSION PREPARED TO EXPAND COMMENTS TO ADDRESS SPECIFIC MEETING AGENDA, WHEN PROVIDED. END SUMMARY.

1. IT IS GROWING CONSENSUS OF WESTERN DONORS AND VOLAG REPS HERE THAT CONTINUED BDG RELIANCE ON CRISIS TO CRISIS APPEALS FOR EMERGENCY RELIEF UNENCUMBERED BY LIMITED OFFICIAL USE

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POLICY OBLIGATIONS MUST BE REPLACED WITH MORE CONSTRUCTIVE,

ENDURING AND COMPREHENSIVE APPROACH TO ECONOMIC DEVELOPMENT. MISSION AGREES. IN OUR JUDGEMENT MAJOR GOAL AT THESE FIRST CONSORTIUM MEETINGS SHOULD BE TO MAKE CLEAR TO BDG THAT ITS LONG-TERM NATIONAL ECONOMIC DEVELOPMENT COURSE MUST BE BASED UPON THE EFFICIENT USE OF DOMESTIC RESOURCES TO WHICH WE PLEDGE RENEWED ASSURANCES OF CONTINUED FOREIGN ASSISTANCE.

2. CONTINUING RESOURCE CRISIS, FIRST BROUGHT TO HEAD BY SHARP POL PRICE RISE, THEN THE DRAWDOWN TO NEAR ZERO OF BANGLADESH FOREIGN EXCHANGERESERVES, AND ITS CONSEQUENCES FOR IMPORTS, AND NOW THE FLOOD, HAVE ALL BEEN MET WITH THE SAME BDG RESPONSE: THAT IS, WORLDWIDE APPEAL FOR EMERGENCY ASSISTANCE. FURTHERMORE, PRESENT DONOR/ BDG RELATIONSHIPS CONTRIBUTE LITTLE TO THE ALTERATION OF THIS BDG MANNER OF REACTION TO THESE CRISES. COMMODITY IMPORTS, "BRIDGE" FINANCING, AND EVEN TARGETED PROJECT AID UNDER PRESENT ECONOMIC CONDITIONS ARE NOT CONTRIBUTING TO A MOVEMENT TOWARD RATIONAL ECONOMIC POLICY DECISIONS. TO COMPOUND MATTERS, ECONOMIC PROBLEMS FACING BDG ARE SO CLOSELY INTERWOVEN AND COMPLEX THAT ANY SINGLE CORRECTIVE ACTION AS SUGGESTED PARA 3. BELOW, IF TAKEN IN ISOLATION, WILL FAIL. FOR EXAMPLE, BDG AGREEMENT TO DEVALUE THE TAKA, IN RESPONSE TO MULTILATERAL PRESSURE, WOULD HAVE LITTLE BENEFIT UNLESS ACCOMPANIED BY A PACKAGE OF OTHER POLICY CHANGES TO STIMULATE PRODUCTION AND EXPORTS AND CONTROL SMUGGLING. BDG POLICY INITIATIVES MUST OBVIOUSLY BE INTERNALLY CONSISTENT, COMPREHENSIVE AND PHASED.

3. IN SUPPORT OF ABOVE MENTIONED INITIATIVE, A BRIEF LIST OF BROAD POLICY SUGGESTIONS FOR DONOR/BDG ATTENTION FOLLOWS:

(A) POPULATION CONTROL. THIS REQUIRES HIGHEST LEVEL POLITICAL SUPPORT AND DIRECTION. MOST SENSITIVE ITEM BUT FAR AND AWAY THE MOST IMPORTANT.

(B) AGRICULTURE. GREAT EMPHASIS ON SUPPLY OF AGRICULTURAL INPUTS, THEIR EFFICIENT UTILIZATION AND THE PUBLIC PROCUREMENT OF DOMESTIC FOODGRAINS. SMUGGLING MUST BE CONTROLLED.

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(C) PRICE RATIONALIZATION. (I.E., BDG SHOULD END OR REDUCE OVERVALUATION OF TAKA AN SUBSIDIZATION OF WIDE RANGE OF CONSUMER AND PRODUCER GOODS). BDG SHOULD BE ENCOURAGED TO EMBARK ON PROGRAM TO RATIONALIZE PRICES ACROSS THE BOARD ALONG THE LINES OF COUNTRIES SUCH AS SOUTH KOREA, AND AS DISCUSSED/RECOMMENDED IN THE WORLD BANK (KOVALSHY) AND IMF (MUJERJEE) MISSION REPORTS.

(D) INDUSTRIAL STRUCTURE. POLICY RECOMMENDATIONS SHOULD STRESS: IMPLEMENTATION OF THE RECOMMENDATIONS (BY U.K. FIRM OF MANAGEMENT CONSULTANTS) ON THE NATIONALIZED SECTOR; REINTEGRATION OF JUTE EXPORT AND JUTE MANUFACTURING INDUSTRIES; AND INCREASING THE SUPPLY OF UNSUBSIDIZED BASIC WAGE GOODS.

(E) JUTE. THE DECLINE IN JUTE PRODUCTION IS A COMPLEX QUESTION, REFLECTING INTERRELATIONSHIP OF ALL THE ABOVE EXCEPT (A), AND CLEARLY HAS NOT SINGLE SOLUTION. ONLY WITH PRICE RATIONALIZATION, CONTROL OF SMUGGLING, AND EFFICIENT MANAGEMENT OF INDUSTRY WILL BDG EARNINGS FROM JUTE EXPORTS RECOVER.

4. WE BELIEVE SERIOUSNESS OF ECONOMIC SITUATION AND PRESENT BDG AD HOCERY, WHICH HOLDS NO HOPE OF IMPROVING THE ECONOMIC WELFARE OF THE VAST MAJORITY OF BENGALIEE PEOPLE, REQUIRES NOT MERELY CONTINUED FOREIGN ASSISTANCE, BUT ACTIVE DONOR PRESSURE ON POLICY QUESTIONS AT CONSORTIUM MEETING ALONG FOLLOWING SUGGESTED LINES:

(A) DONORS SHOULD MAKE CLEAR THEIR CONCERN WITH THE PRESENT ECONOMIC SITUATION, THE ABSENCE OF CREDIBLE LONG-TERM ECONOMIC DEVELOPMENT POLICY, AND PREDICATE THEIR ASSISTANCE ON BDG WILLINGNESS TO USE DONOR RESOURCES WISELY AND TO IMPLEMENT DEVELOPMENT POLICIES;

(B) DONOR REPS IN DACCA SHOULD MEET WITH BDG OFFICIALS REGULARLY TO SUPPORT AND MONITOR BDG INITIATIVES TO RATIONALIZE ECONOMIC PROCESSES;

(C) DONORS SHOULD COMMIT HIGH PROPORTION OF THEIR ASSISTANCE LIMITED OFFICIAL USE

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TO PROJECT EARES MENTIONED IN PARA 3.

5. CONVERSATIONS HERE WITH OTHER DONORS SUGGEST STRONG SUPPORT EXISTS FOR PRESSING BDG TO CONCENTRATE ON LONG-TERM APPROACH AS OPPOSED TO CONTINUED SHORT-TERM APPEALS. MISSION RECOMMENDATIONS RE BRIDGE FINANCING, WHICH WILL BE REQUESTED BY BDG DURING FORTHCOMING MEETINGS CAN BE DETAILED IN SEPTTEL. DONORS SHOULD INSURE THAT BDG IS MADE FULLY AWARE OF DONOR CONCERN THAT EVEN IN THIS LATEST MOMENT OF CRISIS THERE BE AT LEAST THE BEGINNINGS OF PHASED, CORRECTIVE, LONG-TERM ACTION. WE DO NOT ACCEPT THE VIEW THAT THE PRESENT LACK OF DATA, ANALYSES, ETC., IS A VALID ARGUMENT FOR DELAY IN ADOPTING LONG-TERM POLICY.

6. GIVEN THE GROWING CONCERN AMONG U.S., U.K., AUSTRALIA, WEST GERMAN AND CANADIAN MISSION HERE WITH BDG FAILURES TO PROCURE FOOD DOMESTICALLY AND TO DEAL WITH THE PRESENT SCALE OF SMUGGLING, WE SUGGEST THIS GENERAL AREA DESERVES SPECIAL ATTENTION AT THESE MEETINGS.

7. A SERIOUS PRACTICAL PROBLEM POSED BY THE APPROACH WE RECOMMEND IS THE PRESENTSCOPE OF INTERNAL DISARRAY OF THE BDG. FOR EXAMPLE, WE ARE NOW SEEING WHOLESALE REMOVALS OF CIVIL SERVANTS WITHOUT APPARENT RHYME OR REASON FOR AT LEAST THE THIRD TIME SINCE INDEPENDENCE WITH AN OBVIOUS EFFECT ON MORAL AND PERFORMANCE. MORE SPECIFICALLY, RUMORS OF GDG LEADERS' INTENTION TO REDUCE THE ROLE OF THE PLANNING COMMISSION RAISE CONCERNS IN OUR MIND THAT THIS CERTRAL POINT OF CONTACT FOR DONORS WITH THE BDG WILL ENJOY ONLY GREATLY WEAKENED LEVERAGE WITHIN THE BANGLADESH GOVERNMENT. FYI. UNDERSTAND THAT PM HOLDS HIGHEST REGARD FOR DEPUTY CHAIRMAN YET DEPUTY CHAIRMAN REPORTEDLY DOES VERY LITTLE TO PRESS REFORMS; APPEARS TO STAND ALOOF. THIS MAY BE BECAUSE HE IS VIEWED AS FIVE YEAR PLAN DESIGNER AND DRASTIC CHANGES IN IT IMPLY ADMISSION THAT MAJOR ERRORS IN JUDGEMENT HAVE BEEN MADE. END FYI.

8. TO REITERATE, UPCOMING CONSORTIUM MEETINGS OFFER LIMITED OFFICIAL USE

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OPPORTUNITY FOR DONORS TO IMPRESS UPON BDG NEED FOR RATIONALIZATION OF ECONOMIC ORDER AND PLAN PRIORITIES IF FUTURE AID IS TO BE EFFECTIVELY UTILIZED AND IF THERE IS TO BE ANY HOPE FOR REAL PER CAPITA GROWTH. BOSTER

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